Unidentified Audience Member

Obviously Dr. Malone has made a great call with the News Corp. investment. I think it is up psomething like 20% year-to-date. It's just up more today. I'm just curious to know, what do you think it is ultimately worth? It is over $18 right now. Do you think it is still interesting here?

Greg Maffei - *Liberty Media - President & CEO*

I think it was 19.56 this morning or something? You know, we are on the non (indiscernible). We are long-term believers in news. We think that of all the major media companies, they have done the best job of positioning themselves both for international growth and, importantly, for Internet growth and then in many cases, even in the domestic market for exciting opportunities like [Idle]. So they have done a wonderful job on so many fronts with a great management team and a great visionary in Rupert. We are very enthused and very comfortable sitting where we are, and ultimate value I think really is a timeframe issue because they continue to grow value so we are comfortable riding along. I'm lucky to have had John and Dob and the whole team put together a very interesting position in news, and I think we are kind of in a no lose position. We either come up with something interesting in a 355 type deal or potentially look at other tax-free ways to deliver out to our holders. But underneath all that is a rising tide which I think will continue to float that investment. So we are excited.

Unidentified Audience Member

And if I could just ask a follow-up. Is there anything in their -- I know you have gotten this question before -- but is there anything in their stable of assets in the News Corp. empire that seems interesting or attractive to you that you think would fit nicely within the Company?

Greg Maffei - *Liberty Media - President & CEO*

Yes, I love MySpace. I would take – no, I think they have a lot of really interesting businesses, all kidding aside. I think DIRECT, BSkyB, what they are doing in Italy. Seriously you can come up with a long list of very interesting businesses. The challenge will which of those businesses does News believe they can part with that in some way does not fundamentally impair their business, their strategy? Can we find a business they are willing to part with that we can agree on price and that we can consider it is not necessarily strategic in a synergistic sense because it adds so much, at least strategic in a sense that we would be willing and want to hold it for a long-term, a long enough time in some way?

You know people have surmised television stations. People have surmised the couponing business as potential opportunity. One can point to interesting things about both of those businesses or things that are challenging or impaired or potentially impaired over the long-term.

One element that is very interesting is the leverageability of those kind of assets and the potential there for us to in some nonrecourse fashion barring true disaster COD income type perspective to take an awful lot of money off the table on a pre-tax basis and, in fact, leave a small amount of equity in the play and walk away with a lot of cash.

So was that strategic? It will be if you believe you can continually hold those businesses and relever them. It may not be strategic in a sense that it adds to Lorne Abony's business or Rich Cronin's business or to Bob Clasen's business. So we will have to weigh out what is out there. On the other hand, I'm still open to MySpace.

John Orr *Liberty Media - VP, IR*

Yes?

Unidentified Audience Member

If I can just follow-up on the News Corp. topic, could you discuss your view on the poison pill how you would think about voting in such a situation and how you would think about advising other investors on that situation?

Greg Maffei *Liberty Media - President & CEO*

Well, I think we have been consistent in suggesting that things that restrict our flexibility as an investor are not in our shareholders' interests. So in the same way that we as Expedia and IAC sought to get HSR be able to use our preemptive rights or buy more stock in the marketplace or the way that we went and sought to have our votes returned and our Time Warner stock early so that we could participate if there were any critical decisions to be made as a fully voting shareholder, we don't see it is obvious why we would vote for a pill designed to restrict our ability to buy more stock.

As far as advising other shareholders, I don't think we have a position today. We are out one way or another. We are at the moment just saying this is where it seems to make sense for us.

Any more questions? Are you all appropriately desirous of some more coffee?

Well, thank you very much, and we look forward to seeing you in about 15 minutes or so to continue with Liberty Interactive.

And thanks to Bob, Lorne, Rich and Mark.

PRESENTATION

John Orr - *Liberty Media - VP, IR*

Okay. We are back. If everybody could take their seats. We're going to dive into Liberty Interactive now. Greg will come back up and give you an overview of Liberty Interactive and the strategy and rationale behind that tracking stock. And then we will have a presentation from the affiliate management of Liberty Interactive. Welcome back, Greg.

Greg Maffei - *Liberty Media - President & CEO*

I open this morning on thinking about our strategy at Liberty with this slide. And obviously I think it applies almost equally to Liberty Capital -- I'm sorry, as it does to Liberty Capital over at Liberty Interactive. The one blessing is a conversion problem doesn't exist. I think the businesses inside Liberty Interactive on general are businesses we are long-term holders of and are excited about. But the opportunity to incubate new businesses which can leverage the capabilities of QVC and some of the other affiliated companies inside Liberty Interactive, the opportunity to acquire new businesses which leverage those capabilities, the opportunity to bring collaboration across those businesses, to operate them well, and above all, to innovate exist equally in Liberty Interactive, if not more so.

On the roadshow and in recent weeks we have talked about some of the goals of Liberty Interactive. First and foremost in the operating category to continue the strong organic growth in existing markets. We operate in four markets today, the U.S., Germany, Japan and the UK. All have been performing well. The opportunity to extend that and just grow that base business, leverage the capabilities that we have both in international and the Internet in particular, driving those faster growth areas is excellent.

Secondly, we have a 7.6 million customer base in the United States, 10.4 million worldwide. The opportunity to take the strong relationships that we have with those customers, really unique or nearly unique in the world of retailing, and expose them to more products and more services that are Liberty owned or Liberty partially owned and capture therefore more of the value proposition is a great opportunity.

Stories are rift about businesses that got launched on QVC, that benefited from the promotion of QVC, that benefited from exposure to the QVC customer base. An opportunity for us, one that clearly we can capitalize on, we believe more in the future than we have in the past, is to capture more of that value chain by bringing in businesses that we own a piece of, or investing in businesses that want to get promoted, and that we think will be successful.

We show 140 items a day on the on-air channel roughly. The opportunity to always test new ones and see which works, to tinker and improve the business. Mike George is going to be far more articulate about this topic. But the opportunity to include ones in which we have an investment we think is an excellent upside.

Next to talk about video. I already mentioned in the context of Liberty Capital, and you saw how Rich Cronin and Lorne Abony talked about the marriage of the Web and the video linear channels. I think that opportunity obvious exists at QVC. QVC has more video footage, video history and video commerce experience than really anybody out there. And as broadband connections increase, and you think about what else is out there in the Web, continued exposure to video to promote QVC.com our own site. And Mike is going to talk about some of the exciting things we're doing the there and how we are leveraging video on that site.

But also the opportunity to promote other e-commerce brands, all of the ones that are currently in Provide, potentially other ones that we also add is exciting. As I touched on, to have brands that we own a piece of which are distributed not only at QVC on the linear channel and promoted there, not only through QVC.com, but also ones that take advantage of that promotion and are distributed to other channels, whether it be department stores or specialty stores. There are many businesses, as I mentioned, and a couple of examples would be the recent restart of [NutriSystems] or how [Bare Essentials] or [Philosophy] really relied upon the promotion capabilities and exposure to the QVC customer base to grow. We have an opportunity to take other brands like those and bring them, not only into our fold, but broader and leverage that.

Lastly, we have a relatively unique business model. We've got good organic growth, with good prospects for increasing margins. But also, a lot of free cash flow and the opportunity to redeploy that free cash flow into either attractive investment opportunities, which can leverage our synergies, or the repurchase of stock is likely to take our earnings per share and our free cash flow per-share up faster than either our topline growth or our EBITDA growth. That leverage growth story is nearly unique. And I'm going to give you some more statistics about why we think it is potentially attractive to investors and why it be potentially undervalued today.

I mentioned one of our themes obviously with the business of this scale is operate. The good news is Mike George, Bill Costello, Darlene, the teams have been doing it well, and continue to do it well. We had strong internal growth in 2005. And by that I mean comp store growth in excess of 9%. If you think about our opportunity to grow new stores, incremental homes past, it is relatively small. We are a fully distributed video channel. We have some modest 1 to 1.5% new homes past growth. That is not where the growth is coming from. The growth is coming from increases in penetration, increases in ASPs, changes in mix, and customers being converted on the Web. All of those things are what are going to drive our growth. And that kind of comp store growth is really unparalleled. There are very few, if any, retailers of the scale of QVC which could have experienced that kind of growth in 2005. The only one that I know that even comes close is Starbucks. And I have noted on the roadshow, they trade at a slightly higher multiple than we do.

Second is international. We had excellent international growth in 2005. And even still in a relatively tougher environment in Q1, very good growth if you look in local currency. Obviously, the dollar was a severe headwind in Q1. But going forward, as we look at the rest of the year, that is going to abate and start to turn, and we will ask to report better numbers in dollars going ahead.

Strong Internet growth. Last year overall QVC.com was up about 32%, if you include all the internationals, about 30% domestically. Over $1 billion of Internet revenue. That makes us either the second or third largest general merchandise company on the Web, behind Amazon and either tied with or slightly behind or slightly ahead of Penney's. In Q1, as I note on the slide, it was up to 20% of Internet sales. Internet sales rather were up to 20% of domestic revenues, slightly less in overseas, but going faster there. year.

Lastly, one of the things that is amazingly powerful about our business model is we generate among the highest margins out there. But we don't do it by showing particularly high gross margin goods. Surely we're higher than a Costco or an Amazon which has either consumer electronics or high book percentages with relatively low gross margins. But compared to a typical department store, we actually run a slightly lower gross margin trying to provide value to our customers. Where we excel is in our conversion of that gross margin into operating margin and free cash-flow margin.

And that is because the power of a fully distributed video commerce channel is overwhelming. We recently looked at a survey of about 18 Internet and video commerce companies, and found that QVC had the lowest conversion rate cost, or lowest conversion cost. The difference between our gross margins and our operating margins was the smallest. And that is a testimony to both the power of the video and incredible efficiencies that have been built by the team at QVC.

Obviously, how does that is pay off? We think it has brought a lot of value to our shareholders. If you look back just at the incremental purchase that we did in September of '03 when we brought remaining 53% -- 57% rather from Comcast, we paid about 7.7 billion in a mixture of stock, cash and debt. And if you look at those multiples and just pay attention to those for a second because there will be a test at the end. We paid about 13 times operating cash flow in '03. And a little under 11 times operating cash flow for '04. Since then the business has accelerated. And actually both the domestic business in particular, and the international businesses had excellent growth, and domestic has actually had faster growth than was the average over the prior three or five years.

Cash flow has grown even faster. And if you look at about -- and we try to analyze how we have done -- overall something like on the incremental capital deployed we have something like a 12% return on investment. But because we ate our own cooking, as you know, Liberty has encouraged many of the companies in which we are investors to have greater leverage. And we ate our cooking in the form of leveraging that investment, our ROE probably has exceeded 30%. Even with that value in Liberty Interactive today at what we believe is probably a pretty low valuation and one that will change over time or potentially change over time as we change the shareholder base. And I'll talk about that more in a second.

In actual cash out, including about 900 million of tax benefits, we have taken almost $3 billion of cash. If you think about the centerpiece above all of what goes on at Liberty Interactive and what we want to do, QVC is at the core. And taking that QVC engine, both its video commerce capabilities and promotions, and its customer base, and using it to leverage faster growth at the exciting businesses we have come at ProFlowers, or Uptime Prime or any of the other brands, and incrementally taking businesses like GSI Commerce and Commerce Hub, which are Web enablement businesses, and you'll hear more in particular about GSI Commerce from Mike Rubin. The opportunity to let those all accelerate the overall growth of our Web business and leverage that at QVC is very exciting.

To supplement the growth that we have at QVC, which is excellent, and build out a more complete set of Internet businesses at Liberty Interactive, we acquired Provide Commerce back in February '06 and you're going to hear from Bill Strauss about that business. But it is one of the leading providers of flowers and other gift items on the Web. And it is particularly differentiated by an innovative direct business model. In sort of a Dell-like fashion, Bill and his team have reengineered how flowers are delivered to consumers in a way that captures much more margin and provides a much fresher flower and a much better experience. We bought it at what we believe is a reasonable value on a stand-alone basis, probably about 13, 13.5 times EBITDA. And we think we can accelerate that growth and have it be an even better business by leveraging those brands on QVC and QVC.com.

We've also been fortunate to invest in areas where there has been a lot of innovation. And even where we're not in direct operating control, we have been blessed by having businesses which are quite innovative. Expedia business, which I'm quite familiar with as I was Chairman for about three years, is absolutely the leader on online travel. And the list of things that it is innovative in are numerous and many. Beginning with the ability to search for the best fare, to building a merchant hotel model that leveraged the agency traffic that they got from airlines, to packaging more and more elements and bundling them together with a flight and a hotel and a rental car. And that providing – using its leverage and the opaqueness of the price to capture more margin and provide both better value to consumers and better profits to itself. And obviously being early in Europe, which is today sustaining much of its growth. We are an active investor. We have a couple of Board seats, and we account for this business on an equity basis.

Lastly, IAC, the other big investment inside of Liberty Interactive. It is a complementary set of businesses, leveraging both e-commerce and new media experience and having many of the same video commerce elements. A lot of these portfolio businesses have excellent growth and good prospects ahead, and we think will enhance in value.

If you combine them altogether and think about how this business looks over the next three to five years, first and foremost, it has got excellent organic growth for a business of its scale. High single digits to low double-digit revenue growth, fueled primarily by comp stores, not by new homes. That brings out the opportunity to have much less capital investment if you think about it. If you are a typical storefront retailer, and you're rolling out growth by new storefronts, there is obviously quite a lot of expense in that. It is expense that we largely avoid. Most of our CapEx is obviously devoted to MIS type things or potentially distribution centers. And we will talk a little bit about that in a second.

We get increasing margins because of leveraging that business. We are running about a 23.4% domestic EBITDA margin, and expect that the international margin, which is about 17.5, both margins will grow, but the international margin will grow faster. And in particular in places like Japan potentially start to approach the domestic margin.

If you take all that free cash flow, and you take all that growth, and you reinvest it either in new businesses or in the model I have assumed here, and we are primarily in repurchase of stock, you're going to get even faster growth in EPS per share, or in free cash flow per share. I don't think there are a lot of companies out that have that kind of model and that growth. And we are excited about the opportunity to expose it to the public market.

It is accompanied with excellent return on capital on all incremental dollars invested, not just ones that we've invested, but when it invests it continues to generate very high rates of return on capital. As I mentioned already, we have about $3.5 million of strategic public investment in Liberty Interactive as well.

Here comes the test part. If you look at the numbers which we purchased this business, something like 13 and 11 times looking back at trailing and forward, and you look at how the business has grown, and in fact, in some cases the growth has accelerated, and one can talk about the prospects going forward and whether they are as exciting or not, they still pretty good to us.

But if you look at the totality and compare it to a universe of e-tailers and specialty retailers, and you can rightly point out about any one of these that it is not the right comp and is not exactly the same kind of model. That is part of the point. The Liberty Interactive model fueled by QVC is unique. There's nothing with the same growth rates and the same free cash flow generation capabilities.

But if you look at the average, our growth rates are projected over the next three years by analysts to be significantly higher. Our evaluations based on where LINT was trading yesterday, and it is actually down a little bit today, looks less. And this takes the -- just look at it in cases where it takes out -- it values the public stakes and full fair market value, and then takes off the debt to come up with an equity value. But if you look at the totality of we're growing faster than the average. We are trading at an almost 3.5 multiple points on OCF less. And we are trading far, far less on a free cash flow yields basis.

We consider this a very attractively priced business. And I think part of our job, part of my job and the Liberty teams' job is to educate the investing public, or investors, about this business. It is a unique story. It is one that is not fully understood, because there aren't so many comps. And it is one that, because of the way it stood inside Liberty Media, I don't believe has been fully valued or appropriately valued, and probably isn't today.

We have told the story on our roadshow probably to many of the same people who were in this room, who are media investors, who go to media conferences and read reports by media analysts. And the media analysts might write the most articulate report in the world about why this deserves a 13 or 14 free cash flow multiple, or rather OCF multiple, and why it deserves a 3% or 3.5% free cash flow yield evaluation, but the people who are reading it, including many people in the room, are media buyers and media stockholders, not e-commerce, retail commerce, specialty retail holders. And so one of our jobs will be to create a new investing public in this stock by going to retail conferences and going to Internet conferences and [multi-ing] the analyst space, and probably incrementing, if not we certainly don't to lose any of the shareholders in the room, but adding to that shareholders who look at this compared to many of the companies that are on the Boards, because they own those companies or are considering investing in those companies, and can look at the relative attractiveness of Liberty Interactive fueled by QVC. That is our challenge from an evaluation standpoint. That is one of the challenges that is beholding to us to go out and tell the QVC story and the rest of LINT story.

But I have got three people who were going to tell that story in part far more articulately than I can, including Mike and Bill and Mr. Rubin. And we're going to move to Mike next. Great, thank you.

John Orr - *Liberty Media - VP, IR*

All right, I would like to now introduces Mike George, QVC's President and CEO.

Michael George - *QVC President & CEO*

I am delighted to be with all of you today and have a chance to talk about QVC. I thought I would start by just sharing with all of you the reasons I joined QVC, and what I found in the last few months. I was attracted to QVC not surprisingly by the incredible financial success story that all of you know. It is unique in the world of retailing. When I got behind the covers of that success story, what I really fell in love with was the business model that Greg touched on. You know you had a powerful business model when you can price more aggressively than the rest of the market. And you know that is a condition for going on QVC. We have to be able to price our products at a discount to any other retail outlet.

At the same time that we offer that great value our customers, we're able to drop a whole lot more money to the bottom line than other retail formats. And our ability, as Greg said, to convert that money to free cash flow is even more compelling. That gave me great confidence that this is a sustainable model that can drive growth over time.

I was also intrigued by this customer community around QVC. It was obvious from the outside looking in that QVC enjoyed this really passionate, engaged, connected customer community. And it fell to me that that community gave QVC permission to take the brand in new and interesting ways.

I also thought that there was a lot on the landscape in terms of technology trends, new media trends, doing things that I watched at Dell that held great promise for QVC; some risk as well, but much more promise than risk. Six months into the job I'm pleased to be able to report that all of those perceptions have been underscored in what I have seen at QVC. And what I've really grown to appreciate about QVC is that it is first and foremost is very disciplined, execution oriented company, with an enormously seasoned and talented team at all levels. They know the formula. They have perfected the formula to a fine art, and we will continue to perfect it. That combination of a disciplined, focused, organization and quality team, and these great trends out there in the world that we think help us, gives me great confidence in the long-term success and future growth of QVC. And I will try to touch on some of those themes today.

I hope to leave you with three takeaways that that we do have and can sustain this track record of growth and profitability, and continue to widen the competitive gap. We have got a terrific customer profile, and one that is probably different than a lot of preconceptions about QVC's customers, and a loyal customer profile.

What I have seen are a number of growth platforms that we will talk a lot about this morning, whether it is creating destination TV, whether it is growing more leadership brands, as Greg on, whether it is participating in all of the media and Internet developments that will allow QVC to be more ubiquitous, or whether its continuing, strong international growth that we enjoyed.

This is my favorite slide. It is also Bill Costello's favorite slide. It is even better when you add profit. They're just aren't many companies or many retailers of our size and scale that can talk about that sort of a track record of growth in revenue and profit. And I think it is all the more distinctive when you compare us not only to our direct TV shopping competitors, but really compared to the overall retail landscape, and look at the challenges and the volatility in the department store space or the specialty store space. That really says there is something special here. And I think it is both that combination of great execution and a winning and sustainable business model.

I want to talk about our customers, because they do defy stereotyping. I thought this was a fun way to think about the diversity of our customer base. We have picked a street corner. We have happened to pick a street corner that is arguably in a retailing capital of the U.S., if not the world. It is interesting what you find in this great retail hub. In the last twelve months we delivered 180,000 packages to homes within a mile and a half of arguably the best retailing street in the country. And it just confirms the point that I think all of you understand, which is QVC customers are everywhere. They span every region. They span urban, rural, suburban. They span ages. They span income levels. There's enormous diversity and vitality in our customer base.

We also have a healthy and growing customer base, which Greg touched on. A few ways we look at it, if you just look at customer count, as Greg mentioned, we're up to 7.6 million customers in the U.S., 10.4 million worldwide. Our goal is to grow that at a steady, sustainable rate. You won't see big increases in this chart, but you will see a pretty constant drum beat of adding to the customer count every year. And keep in mind that this chart is domestic. Over the last four or five years what is underneath that chart is that we have been in all U.S. households virtually since the beginning of the time period shown on this chart. We've lived through the rise of satellites, where we have typically much lower channel position than on cable. We have lived through the rise of digital cable, where we compete with many more channels. Well over 60% of our households have either satellite or digital cable. And yet in the face of all those forces, we keep adding customers methodically every year.

We also continue to find ways to get more dollars out of every customer. As you can see our purchases per customer also increasing nicely, a combination of both more frequency, more units per customer, as well as a nice sustainable increase in ASP. We continue to raise our aspirations about what our customers want, and in turn lift their aspirations and find that we can sell a $19 flashlight that never dies and a $,2000 Dell PC, and be very successful with both.

What really has struck me about the QVC customer base is the loyalty. If you look at our total customer base, 60% will repeat purchase within a year of their prior purchase. That number would be higher if we looked at over our customer's lifetime. But just within a one year timeframe, 60% will buy again. If you look at most other direct marketers, I think catalogs would be thrilled to have 30, 35% repeat rates. So we feel pretty good about 60.

But to really understand the magic under QVC, you need to break that 60 apart into customer experiences. If you look at customers that have only made one purchase on QVC, only about 30% will repeat within a year. I seems it takes a while to get engaged in QVC and to really understand what it is all about. Many more will buy over a longer time period. But 30% will come back, which is a very good repeat rate for new customers. More important though is if you bought two things from QVC, your likelihood of coming back within a year is 80%. And at 5 it is 93%. So it is really not much of an overstatement to say that if you become engaged enough in QVC to try us out a couple of times, you become a customer for life. That is kind of tail on customer loyalty is something I've never seen before. And I think it is a testament to a team that focuses in every part of the business model on building customer trust, keeping them engaged and never disappointing them.

With that as backdrop, I wanted to talk a bit about what I see as some of the growth opportunities at QVC. And to understand those growth opportunities, I think you need to understand what QVC is all about. QVC is not just about home shopping. I think about QVC as having a few distinct capabilities that in turn gives us a great platform for growth. QVC is a very efficient aggregator of traffic, which Greg touched on. We're in 160 million households worldwide. We served up well over 300 million Web visits worldwide last year. We know how to accumulate traffic and then build a very engaged community around that traffic.

And a lot of folks have asked me why we don't do more in the area of paid advertising, more Internet advertising as an example. The reason is that it is simply less efficient than the power of our own network. We have experimented with search advertising, and we do little bit every year. But we find that at the kind of rates that the industry is buying up search terms, the economics are just not there, not for us. And I am not sure they're there for a lot of folks that are spending the kind of money they're spending today. We drive traffic much more efficiently with the power of QVC than with the power of other paid vehicles.

We are of course a global retailer with success not only in the U.S. but in major markets outside the U.S., and as we have discussed, a level of growth, productivity and free cash flow performance that is pretty unique in retailing. We're a builder of brands. I'll talk more about that in a minute. That is unique in retailing because of the power of our air time.

And we're in the entertainment business. We are there to engage and entertain our customers. And we're finding more and more interests in QVC as an entertainment opportunity. That all leads to four platforms for growth I'll talk about, viewership, brands, channels and international. And I will go through each of those.

Viewership. We have a very simple recipe at QVC, which is the more people watch us, the more they buy. And we focus on viewership, not on selling. Because the harder you sell, the fewer people buy. That is a lesson our competitors have gradually learned over the years. But for us it is about making engaging programming and pulling people in and making this appointment TV, must see TV. These are just a few examples of the ways in which we can go beyond the normal formula to bring exciting energy and buzz to our business.

We talk on the slide about reality TV. It is a wonderful trend for us, and a way for us to build more energy and buzz around the brand. For example, as many of you may recall, we were featured on an episode of The Apprentice and also on Martha Stewart Apprentice, like other brands have done. That gave us a lot of visibility. But we went beyond that. We had all the interns after The Apprentice show come back to QVC and sell on QVC. The only time they have ever let the interns out in public while the show was still running. And got a lot of news value out of that. We had Donald Trump come on the air twice to sell 60,000 copies of his book. That is the way to kind of leverage these properties and do some unique things.

We are partnering with a show called Blowout. I don't know if any of you have seen it. It is a very fun program on Bravo featuring [Jonathan Anson], a celebrity hairdresser in Beverly Hills, who has a line of haircare products. And they follow Jonathan around and report his real life. A big part of his real life is selling on QVC. So we often have Bravo in the building filming Jonathan as we're filming Jonathan. And all of a sudden we have this free series long commercial on Bravo about QVC. And in turn Jonathan helps us out. When we launched his haircare line we sold 35,000 units in an hour, our most successful ever haircare launch. Two weeks go we launched Paula Abdul's jewelry, capitalizing on The America Idol phenomenon. It was the most successful jewelry launch in our history. More and more of that will be coming. With our reach and our popularity we can form these creative partnerships and leverage these properties to grow the business.

Leadership brands is another important opportunity. Greg touched on it briefly. It comes in a couple flavors. We have a great brand portfolio today. Some of them are pictured here. We can continue to bring more and more leadership brands under QVC. Brands that historically weren't willing to come on to a home shopping network. There was a perceived stigma there that has largely gone away. As the department store industry continues to shrink, and specialty stores struggle, more and more designers, more and more great brands want to come to QVC for us to tell the story. That gives us enormous growth opportunity going forward. We also want to continue to grow our own proprietary design and sourcing. And as Greg mentioned, we think there's some opportunities for M&A that I will touch on.

Here's what makes QVC a great home for brands. For any given customer that buys a product from QVC, there are probably about 100 watching. That is a terrific advertising vehicle, and one that we probably haven't fully capitalized on. I think this quote from William Lauder is telling about their experience when we got caught an Este Lauder brand on QVC. You see sales lift outside of QVC.

If you look at the floor's product mix, what they promote in any given week, and you look at QVC's cosmetics lineup, you'll find striking similarities, because the floor very wisely follow us, because when that product is on QVC, the floor sales spike. Nordstrom's sales spike. That is a great benefit we have for us and for our brands. And by the way, when we bring brands on to QVC we generally enter into exclusive arrangements, which gives us a widening advantage to the competition. And in turn we think there's an opportunity to selectively look for early or mid stage investment or acquisition opportunities in brands that we can build on QVC, but build elsewhere as well leveraging the power of the network.

We're going to do it carefully. We're going to always hold true to a principal, which is we're not going to put something on air just because we own it. It's got to work, and it has got to deliver the sales per minute, and keep the customer happy. We're convinced there's a lot of opportunity here, excited about our work with Bill and ProFlowers, where we think we can build compelling programming, and more of that to come.

We will continue to grow our proprietary brands. About one-third of our mix today are proprietary brands. It is a good supplement to the national brands. And it is important to understand that these brands are leadership brands. These are not me too brands. These are not low-cost brands. We led the way, as an example, with our Northern Nights women's brands in teaching the industry about thread count. And we had a much higher mix of high thread count product in our own private-label than the industry had. We have a new line of Amadaus European-inspired fine linens to go on top of Northern Nights. 1,000 thread count Egyptian cotton. A great product at an unbelievable price.

The same is true in cookware, with the leadership brand in Cooks Essentials, and other brands we're putting around it. We will continue to invest in that. Continue to expand our design and sourcing capability. That in turn gives us both product differentiation, great value and margin opportunities. And while we're not banking on our gross margins rising over time, and we have not given that as guidance, this is another way to insure that our margins are helping healthy and stable, because these products come with a very advantaged gross margin structure.

The third area of opportunity is to make QVC more ubiquitous. To get us in front of more eyeballs and to follow the technology and the media trends. Here is why that is important to us. This chart tells you the value of a customer to us who is a phone only customer on the left, or an online only customer on the right. What is really exciting to us is the value of the customer that shops both channels. This just tells us sort of this obvious insight that our best customers want to receive QVC in multiple ways, and order in multiple ways, depending on where they are, what they're doing, what the product is. We want to continue to provide new channels and new ways for people to access QVC.

We will continue to grow the Internet business. As Greg said, when you look at the growth in the Internet, including global, it tops $1 billion. That puts us in the top tier of worldwide Internet brands. If you look at it by verticals, it is a similar story. Twice as big, our beauty business at [thefloor.com]. The jewelry business the same size as Blue Nile. Our linens business, domestics business, as big as the two category killers combined. We can dominate over time these industry verticals online.

We will continue to invest, an area of passion for me, in making your Internet site world-class. A focus for us will always be on integration. Again, our customer wants to shop multiple channels. So we will keep driving that integration with innovative approaches. Some of the things that has enabled us to really build our Dell computer business is that you'll watch a Dell hour on TV. We will have the Dell experts explain the product. We will then go online and research it, and find out more details about the product. And that Dell expert, as soon as he or she goes off air, goes behind the stage and conducts a live chat with our Internet customers, where every Internet customer can ask whatever question they have about the product. And it gets people over the intimidation factor, multiple ways to learn and to buy.

Our beauty business has a very high Internet penetration. We think for a simple reason. You're a engaged by the show. The show teaches you about great new beauty brands you may now had been aware of, what they are for, how they're used. And then once you fall in love with that brand, you will reorder it, and you order different kinds of SKUs online, even if you never had been engaged with the TV show. That is a power of that integration. A number of other enhancements. I won't take you through all of these, but expect to see continued focus on upgrading our Internet site.

We have heard a lot this morning about the TV, Internet convergence. We think this is great news for QVC. I'm not going to try to predict the pace at which it will happen. But what we want to is dial up the experimentation, trying to find new viewership patterns for our customers. And I'm showing a few examples here.

Today if you go on to QVC.com we have a link that will you get a live feed of the ~~show~~. It is a nice application. It is a fairly small screen size. Not highly used today. But what is interesting about it is that live feed, the usage of it spikes over the lunch hour during weekdays. Right? So we have our customers that watch us on the weekend and love us and watch us at night. And then maybe on the lunch break with their great broadband connection they have at work, they are able to watch us for a few minutes. That tells us our customers will engage in TV on the Internet. Next year we will be launching a redesign of our website, where as soon as you go to the home page, you'll be presented with the live show, and then other Internet content wrapped around the live show. So the integration, it is 100%.

It is not just about going to QVC.com. We want to find other ways for folks to discover us. Today channel surfing and word-of-mouth are the primary ways people discover us. We think in the future Internet surfing will be another good way to discover us. We're working on deals with some major portals, one we hope to announce in a few weeks, whereby we will be a featured channel on the Internet portals. And you can watch QVC while surfing other major portals, and open us up to live call new customer set. We will also work on video on demand opportunities with these same portals.

We have a fun idea called QVC Live Now. And QVC Live Now is all about again presenting this great live content. Live is what makes it special, unique and unpredictable. And we just want to present it in more and more forms. So one idea is to present the QVC channel at key moments to interested customers to may be willing to engage with us. To make that example concrete, on May 22 we're going to have our second Paula Abdul show. It happens to be the night before the American Idol finale, with all the buzz and viewership around American Idol finale. We're going to broadcast our show live from the Kodac Theater where the finale will be the following day, with Paula and a live audience. We will obviously broadcast it over QVC. We're also going to place banner ads in a number of third-party Internet sites where we think Paula Abdul fans might congregate. And we're going to invite them to view Paula Abdul live.

We're going to do something pretty unique. We're going to buy ads for 90 minutes around the Internet. It will start with a countdown, 30 minutes to Paula, 15 minutes to Paula. And then during the show, if you click on that banner ad, you will be presented with a live feed of the Paula Abdul show. That gives us us whole new set of eyeballs that might not have ever entertained QVC before. These are all experiments. I am not going to predict which ones will work and which ones won't. But it just gives me confidence that there are so many ways out there we can at in front of new folks with great, live content.

A few more examples. As you may know, we have had an interactive application in the UK for a long time. You can buy through your remote control on the TV channel. An interesting idea, we're currently playing around with in the UK, and I think it holds promise for us, is if you don't care for what is on the show right now, if it is a product line you're not interested in, through your remote control you can access a hidden channel and see the show that aired in the prior hour. So all of a sudden we doubled our capacity to customers.

We are very excited about the success Japan is enjoying what their mobile applications. You can get live streams of the show, along with the Internet application, on mobile phones in Japan. And it has become a meaningful viewing and ordering device right out of the gate. We're going to watch it closely, and expand it globally at the right time.

And then finally, we're trying something called the 25th Hour. It has been sort of a standing joke around QVC is that the only thing we can't do is add another hour to the day. So we decided to take on that challenge. And we're going to experiment with filming 25 hours, instead of 24. And the final hour will be shown on the Internet site. Unique programming, only available on the Internet site. And counter programs so that we have a Dell hour on the site, a Dell hour on TV. And most people at any given point in time aren't in the market for a computer, we will direct them to the Internet site where they can watch a jewelry hour or a home our. We will test it. We will seem how it works, but we think over time again it holds great promise for us.

Finally, international. It is a terribly important growth platform for us in the past and going forward. The team there and done a fabulous job building strong QVC businesses. We think these businesses can continue to grow at healthy rates. We think it is 15 to 20% local currency kinds of growth rates are very sustainable over the next few years, along with continuing increases in our EBITDA yield as those markets grow into their fixed costs. So both healthy top and bottom line growth internationally.

We are always asked the question, Bill in particular is always asked the question, about what is the next market. I will repeat what you guys were tired of hearing, which is we keep looking. We think China has long-term potential. Other markets in Europe, France, Spain may be possible if DTT, Digital Terrestrial, takes off. They're not quite at the level of cable penetration that we think works. But the other thing we are watching is whether some of these new applications, some of the new ways to distribute the show could create a different approach internationally. It is far too early to judge that. And so no specific plans internationally, other than to continue the great success in the three markets we're in. But I think over the long term that will certainly evolve as well.

And let me close on putting my favorite slide back up. I have a very simple job as CEO of QVC, which is to keep this going. And as you can see, I'm pretty passionate about the company and the growth prospects. And I think of all the things we have talked about and many things yet to be discovered, I have no concern about maintaining a very strong and exciting growth rate for QVC. Thank you.

John Orr - *Liberty Media - VP, IR*

Thanks, Mike. And now please welcome Michael Rubin, the President and CEO of GSI Commerce.

Michael Rubin - *GSI Commerce - CEO*

Thank you. It is our pleasure to be here today. Just by way of background, GSI Commerce is its own public company that is on the NASDAQ and 20% owned by Liberty, who is our largest shareholder. I just want to start by introducing GSI, as everybody in the room may not be familiar with the company, and tell you it will be a little bit about background on the company.

We are one of the largest e-commerce platforms. And really what that means is we operate most, if not all aspects, of 50 major brand name and retail e-commerce companies businesses. That means we actually run the technology platforms. We build the boxes. We pick their phones up. We place their online advertising. Again, it is really running most, if not all, aspects of their e-commerce businesses.

The company is headquartered right outside of Philadelphia. We have got 1,500 employees. We operate about 1 million square feet of fulfillment centers in Louisville, Kentucky. And we have call centers in Melbourne, Florida. And in fact, one coming later this year. And also our international headquarters in Barcelona.

I just want to quickly talk about the market that we're addressing today. We are in about two-thirds of the overall e-commerce market today. Overall e-commerce in 2006 is a little bit more than $100 billion. And today we are in about seven categories. And those categories roughly represent two-thirds of total e-commerce. What is very common about the categories that we're in today is that they are some of later adopting, fastest growing e-commerce categories. They also have a very high average order. Today our average order is over $100 a month for the seven merchandise categories that we're in today. And also there's great brand names in these categories. GSI is all about supporting big brand names and big retailers to operate their e-commerce businesses. And what is really important for us is to work with the best names in each of these categories.

I think everyone is familiar with the growth that e-commerce is going through. Certainly again a little bit more than $100 billion in sales today. We expect to have nice growth over the next five years to a little bit less than $200 billion. Again, the categories that we're in are actually growing at a much faster pace than overall e-commerce.

Also one point that I would like to also make is the gross profit associated in the industries that we serve it is very high. Think about maybe about 50% average gross profit. So our partners today that are in e-commerce or significant e-commerce businesses, today have $100 average order with $50 in gross profit, which makes for a very good business for everybody involved.

One of the biggest questions that we're asked is why do people want to outsource their e-commerce infrastructure and operations, and why don't companies just do this themselves? First and foremost today overall e-commerce represents about 6% of total commerce in the U.S. It is projected to grow to maybe 10 or 12% in the next five years. What is interesting is in the six categories or the seven categories that we talked to already, it is actually more like 3 or 4%. And what is important to understand is whether it is 3 or 4%, or whether it is 10 or 12%, it is not our partners' core competency. At the same time, it is a mission critical business that they need to be very good at. And that is why companies partner with us to get the best capabilities, the most innovation, the best infrastructure, but without having to have all the complications of putting together a highly complex business.

I want to quickly hit on our value proposition. First and foremost, we offer complete solutions. Companies that work with GSI, while most companies work with us in all aspects of the services that we offer, we have a totally integrated e-commerce offering. And again it includes fulfillment, customer service, technology platforms, designs, development placing online advertising, handling the CRM, all the market shots, all the multichannel integration. So again it is a very complete solution.

We're totally invisible to the consumer. If you go to one of our website sites, like nfl.com or polo.com or estelauder.com, you are never going to see GSI. We're totally invisible to the consumer. That is very different from our primary competitor, which is Amazon with the services business that is -- it is certainly -- unlike GSI -- it certainly has some conflict in the companies that they work with. And I think that is a real point of differentiation for GSI.

We have tremendous sale and operating leverage. And the great thing is we just getting going. We started in 1999. $5 million went for our platform. This year we grew approximately $1 billion to the platform. And we're just getting going creating more operating efficiencies and scale. While it is significantly more than what each of our partners have individually, there still tremendous more operating efficiencies still to come in the future.

We're highly focused on investing in the growth and in innovating all of our capabilities. We just went international last year. Only - less than 5% of our business today is handled outside of the U.S., 95% in the U.S. or a little bit more than 95% in the U.S. Roughly all kinds of marketing services through our partners. This is something branded that we only started to offer in the last year and a half. But GSI Commerce will be the advertising agency of record. For most of the companies that we work with, will place more than $50 million in online advertising on behalf of our partners.

We're certainly very focused on innovating our platform. We have 300 people fully focused on building an e-commerce platform. And certainly none of our individual partners could afford to make that kind of investment and justify that kind of investment. And what exactly you get is significantly better capabilities, being on the forefront of technology to innovation. And it really helps our partners to be more successful, make more money, and do better in e-commerce than what they could do on their own.

We also have a very unique economic structure. The way the company is really created is under long-term, exclusive agreements with the companies that we work with. The average length of our agreement phase is around seven years. Some are maybe as short as four or five years. And we actually have deals that are as long as 20 years. And the way that we work is that we simply take a commission for operating all aspects of our partners' e-commerce businesses. Roughly speaking we take around between a 20 and 25% commission on the sales that take place for providing all the services that we provide today. Again, these are under exclusive long-term agreements.

Just to give you a quick feel through the partners that we work with today, some of you may remember the company as Global Sports. That is where we started in 1999, and we originally started as a sporting goods company. We really spent the first three years only in the sporting goods business. Today we have a tremendous leadership position in sporting goods with companies like Dick's sporting goods and Sports Authority, which are the two big brick and mortar retailers in the sporting goods categories. We operate four of the five league sites with NFL, the National Hockey League, Major League Baseball, NASCAR. Several footwear brands that we work with like Adidas and Reebok and Rockport.

So again, this is a business that we focused on all the way through 2001. It wasn't until 2002 that we started to go beyond the sporting goods business. And that is when we changed our name from Global Sports to GSI Commerce. All the categories that we're in today beyond sporting goods, again, were launched from 2002 to 2005.

Apparel is a very big category for us. We work with companies like Polo, Levi's, Kate Spade, Burberry. Certainly the electronics category is a big business for us. We work with companies like Palm, RadioShack, Tweeter. Health and beauty, Este Lauder and all the brands they work with. The Limited through the BBW business and GNC. Entertainment properties, and also a big business in the jewelry category.

I think what I want to leave you here with again is a theme of seven great categories. Great brand names. Market leaders in the business. And we're really operating most, if not all aspects of their e-commerce business, and allowing them to be more successful than what they could do on their own.

One of the questions that people ask us is how we have grown so quickly. Really want I to hit our growth strategy. First and foremost, we continue to add new partners at a very rapid pace. And if you really look at the chart what you'll see is as we continue to add new partners each year that really helps to compound the growth.

One of the things that is very important to understand about our business is we basically have a sales cycle between six and twelve months to sign up a partner. And then the average partner takes around six months to launch. We don't charge our partner any start up fees. And the average partner costs about $1 million to add a partner. So we are really funding all the costs and expense and capital for integrating these partners, where we have no revenue against it. Once the once the site goes live, it is instantly profitability. And the site generally pays itself back within about a year on average. So again, our new partners have been a big part of our growth.

One of the big great things about our business today is our existing partners today in 2006 we do around $1 billion through our platform. Now we have a very nice big base of comp store growth to really grow. And again I think our comps are running somewhere in the low 20s to mid-20s. And certainly we're enjoying significant comp store growth.

Within our existing partners, really how do we get this comp? First and foremost is really just driving the growth of e-commerce. In addition to that, we're continuing to innovate our platform, and again build lots of capabilities the partners couldn't do on their own. A great example of that would be buy on line, pick up and store. This is something that maybe 10 or 15 of the top couple of hundred retailers do it themselves. That is where you can go online, actually order the merchandise, and then up from the stores. And companies like Best Buy or Circuit City have been very famous for doing this. But it is actually something that is very complicated to do.

We started pushing this two or three years ago. And by I think the end of next year we will probably have almost as many companies doing this with GSI that do it in the rest of the country. This is a great example of innovation, how we can go out and do something that is highly complex and complicated, invest large capital dollars into doing it, and then sharing that across our broad partner base. We do that in many other areas. Things like gift registries, personalized and customized products, international capabilities. Again, that is why partners work with GSI.

We are offering services again as a brand-new business that we only entered in the last year, year and a half. That is providing design services for our partners, providing -- placing online advertising for our partners, placing CRM capabilities for our partners, and email marketing for our partners. That is a business that is also growing very quickly. Again, last but not least is international.

I want to quickly highlight our growth versus the overall growth of e-commerce. I think if you look at overall retail, it typically grows between 3 and 5% a year. I think e-commerce is grounding at around 25% average in the past five years. We have grown at an average two to three times the pace of overall it e-commerce. That is because of, again, all the things that we do to help partners book faster than what they can do on their own. It is because of the addition of new partners, and also being positioned in some of the best e-commerce categories.

This chart really illustrates how we have grown the categories. What you'll see is again through 2001 we are really focused only in the sporting goods category. And really in each of the last couple of years we have added one new merchandise category and about ten -- eight to ten new partners. That we guide to five to ten new partners to be expected to be added each year. But again we have been at the high end of that range between eight and ten partners. And this year so far we have signed five new partners to take us up to 55 or 56 partners year-to-date.

We think that most of our growth will come from the existing categories that we're in, but there are still a few more interesting categories. And we think over the next couple of years we will have additional opportunities to enter a few more categories. We certainly believe that we can maintain at least the pace that we have been on, and really even look for an acceleration of the ability to add new partners maybe even at a faster rate than we have historically going forward into 2007 and beyond.

To be quite honest, the biggest reason why we haven't added more than eight or ten partners a year for the last several years was just how fast the company is growing. And as we have been able to invest and scale the business, I think we actually now have an opportunity to really accelerate the growth of the business.

This chart is not quite as pretty as the QVC chart as it relates to the sales numbers today. But we do have a chart that we shamelessly did not actually steal from them, but really illustrates the same type of growth, which is continued four quarters of trailing twelve month sales. That it has grows every quarter since we have been in business. I think the most important thing that I really want to talk to the group today about is during all the good and bad times of the Internet, we have continued to grow quarter after quarter on a trailing twelve-month basis. I think again that is because great partners, remain focused, and always good execution behind the business.

Last but not least, I want to talk about the multiple drivers of margin expansion. One of the great things about getting to $1 billion roughly in merchandise sales this year is we're really started to see some variable operating efficiencies and some overall efficiencies in the business. One of the great things about also being only $1 billion going through the platform is we think that we have tremendous growth ahead of us, and tremendous operating efficiencies to come.

I think just a couple of things to point out is our gross profit has continually gone up year after year over year. I think that is really just because of the addition of more servicing deals. From a sales and marketing expense perspective that is where really all about fulfillment and credit cards, and customer service costs goes. And I think we can see there this is again scale working for us. And again with only $1 billion of sales we think there is tremendous upside for us in the years to come.

In an area like product development, which is where we spend all of our technology investment, what we are really excited about it is to see that go down as a percentage of sales. We were spending $10 million a year four years ago, and this year we will probably spend about $30 million or $35 million in annual technology expense, plus another 20 or $25 million in CapEx. What you see is tremendous leverage, and at the same time continued further investment dollars into the platform. And then, again, that is why we can do such a better job for our partners than what they can do on their own. Last, but not least, is G&A, where certainly as the business continues to scale, we continue to get more leverage.

Thank you.

John Orr - *Liberty Media - VP, IR*

Thank you, Michael. And now I would like to welcome the Chief Executive Officer of Provide Commerce, Bill Strauss.

Bill Strauss - *Provide Commerce - CEO*

Presenting last today -- well, I was at the Kentucky Derby on Saturday, and presenting last today brought back horrible memories of the horses that I bet on and where they finished.

Anyway - so let's talk a little bit about Provide Commerce. And I want to talk about the three things effectively that make us as successful as we have been to date. One is our direct business model that Greg alluded to earlier. Second is the great people that execute on that direct business model. And then I think culturally what is most important to us is execution, execution, execution. That is what our business is all about.

We learned a long time ago that what we ship for our customers and deliver is an emotion, not a product. It is far more important to our customers than the $50 they will spend on an average order value with us to ensure that when they buy gifts for birthdays, anniversaries, Valentine's Day or, this week, Mother's Day, that that product arrives on time and is perfect every single time.

And some of the results of our model and our focus has been the highest customer satisfaction in the space that we compete in -- revenue per employee of approximately $1 million. We have been profitable for many years now. Our direct business model also enables us to operate a negative working capital model that throws off a lot of free cash flow.

Additionally, it is a virtual model. When we say virtual, for a company we will do approximately $225 million for the 12-month period that ends June 30, '06 -- so about six weeks from now, seven weeks from now. For that period of time, on the books of inventory will be approximately $3 million worth of inventory. And that is not perishable inventory. That is inventory like packaging materials, boxes, things like that, or our accessories -- vases, bears, chocolates -- products that really don't get obsoleted.

Additionally, our model is very, very scaleable. During days like today, we are taking and shipping orders at the run rate of a multibillion dollar business, but we have to be in all profitable at that run rate of a $200 million business. So very effective business.

These are some of the financial results to date. So you can see we haven't been around as long as QVC, so we have to make the bars a little bit wider, but hopefully a similar trend that we can continue for many years to come.

And it is interesting, when you look at our growth rate, nobody knows about ProFlowers yet, or Cherry Moon Farm or Secret Spoon -- for ProFlowers, which is our biggest brand and north of 200 million of our revenues for this year, we have less than 5% unaided brand awareness and just north of 15% aided brand awareness.

Nobody has heard of us yet, and we continue to get results like that and steal market share from our competitors that have huge brand awareness. We compete against FTD, north of 95% brand awareness, or 800-flowers in the mid-80% brand awareness. These are the results that we are getting by focusing on the customer and delivering a better value proposition that I will walk you through in a second. Additionally, as we get bigger, we get better, as you can tell by our gross margins on the line below the revenue line.

So how do we do it? The way we think about the world at Provide Commerce is -- what customer problem are we solving for? And in the United States, the U.S. is 16th in per capita consumption of flowers in the world. The wealthiest economy on the planet is only 13th in per capita consumption of flowers.

Customers say they don't buy more flowers for two reasons – one is they cost too much, and I will go into that. So the reason why flowers cost too much, you can see on the left-hand side of the slide here, is because they are being marked up in a very inefficient supply chain. Flowers are a product that is perishable. And they begin to die the moment that you cut it.

But the legacy supply chain, where our competitors compete from -- both 800-flowers and FTD – they fulfill from that retailer bucket. Flowers go from a grower to an importer to a wholesaler to a retailer, i.e., like a florist, finally to consumers. All those guys in the middle are marking up that product.

What we have done is we have eliminated the middleman, we've pulled cost out of the model and we pass those cost savings on to the customer. So that is model 1. We have cut costs -- one reason why customers don't buy more flowers -- they cost too much. This chart explains why they cost too much in the legacy supply chain, and what we have done to fix that.

The second reason why customers say they don't buy more flowers is they don't last very long. Well, sure. Every step along the way in the supply chain, as they are being marked up, they are also aging. Flowers can live in the supply chain, where they go through the supply chain and spend up to 12 days worth of their life, if you will, in the supply chain, that is why they are only going to last a day or two in the consumers' home.

What we do by going directly from the grower to the supplier and cutting out many days of that, we literally reverse the amount of time flowers will spend in the supply chain to a relatively few days and guarantee they will last in the consumers' home for at least seven days.

So the customer -- we pick customer problems, we solve for customer problems in the flowers category and the other categories. This explains the results that we have had to date, why we can deliver a better quality flower at a better price.

So the model has numerous advantages. Some of the other advantages for the consumers besides speed and cost is with our model, because we go to growers, we know exactly what we're selling and how many -- the customers will get what they want. If you order from us, we have relatively few to no substitutions at all versus, again, our competitors, who are using thousands of local retail florists all over the country. These local retail florists our competitors use do not have any inventory systems. The orders get sent there without knowing that exactly what the customer ordered is in stock. We don't do that.

Additionally, fine variety -- for instance, red roses. There are over 50 different kinds of red roses that are grown and sold. We know the two or three varieties that last the longest, have the biggest heads and open the most consistently. Those are the three most important attributes for American consumers. Because we buy our flowers direct from the growers, we can ensure that our customers will get those three varieties every time they order, and have a higher likelihood of having a great experience with them.

Talk a little bit about why the growers and suppliers like working with us. The flower-growing industry is a commodity industry. When you have that many middlemen, it is not surprising, because the product that the growers are growing is not the product that the customer finally receives at the end of flowers going through that inefficient supply chain and being up to 12 days old.

So what happens is the middle guys, the importers who buy the flowers, are negotiating out every penny, every half-penny, every quarter-penny a cent that they can get out -- it is a commodity business. So the growers do not make a lot of money and a lot of them are struggling around the world.

What we have done, we've gone to growers and we say, we want to be your most profitable customer. And in return, we want your highest-quality product. And their answer is always, done, because they're looking to make more percent so they can invest more in technology, buy more land, build more greenhouses. We enable these growers to do that.

Now, on top of that, I also believe in the old business adage, what gets measured gets done. So every single month, we give feedback to the growers how their product is performing, not according to our standards, although we have lots of internal QA, but it is feedback from the customers. And we constantly talk to our customers in systematic ways by calling them, surveys, etc. -- that gets fed right back to the growers.

We also believe we have a lot of growth. Independent of the Liberty acquisition, which just happened in February, we have been growing nicely, as you can see. We think there's a lot of organic growth in the flower category with our ProFlowers brand. We don't think we have scratched the surface yet. We continue to grow that nicely.

Additionally, we think there's also a lot of growth in some of these other categories we launched. We launched Uptown PRIME and Secret Spoon in October of '03 -- I'm sorry, Uptown PRIME and Cherry Moon Farms -- in October of '03. In November of '05, we launched Secret Spoon. Those products will double from last year's to this year. So we think there's a lot of organic growth in the brands that we're doing now, as well as new brands that we have ideas for as well.

So as we think about these new categories to get into, we look to solve a customer's problem. We want to make sure that we can give customers better value, better product, more convenience, if you will. We are good at supply chain management. We look for categories that have fragmented supply chains.

We also like a recurring revenue stream. Flowers is a very seasonal business -- obviously, Valentine's Day and Mother's Day make up a huge part of our business. And also, the categories have to be large. It is as much work to do a large category as a small category. We try to focus on the large categories.

We are also ecstatic to be part of the Liberty family. We think it is absolutely the right thing for our business and our customers. We think that with the unaided brand awareness and even aided brand awareness that we have, there is a huge opportunity moving forward.

Our goal, our key, is to get in the consumers' consideration set as they decide to buy product. We think the synergy of working with Mike and his Company, combining Internet and video [still] brands is absolutely the right strategy. We have a lot of customers -- over 5 million customers. Lots of other Liberty properties have customers -- maybe there's an opportunity to cross-market across different customer bases.

We also think on the cost side - and I think the cost side is always less interesting than the top line side but even on the cost side, we buy a lot of corrugated every year. I'm sure what we buy doesn't it pales in comparison to what QVC does. Maybe we can share vendors for costs of telecom, packaging, areas like that, that we can help drive down our costs. And we think there's a lot of marketing expertise across the different companies that hopefully we can learn from as we go forward.

So that is in a quick nutshell a little bit about Provide, some of our brands and how we do things and how we got to where we are. And once again, we're just thrilled to be part of the Liberty family. We think there's a lot of headroom and synergy to be found over the next few years.

John Orr - *Liberty Media - VP, IR*

Thanks, Bill. And with that conclusion, that concludes our prepared remarks for today. Now we are going to open it up to Q&A. And I'm going to invite Greg Maffei and our Chairman, John Malone, up onstage.

Greg Maffei - *Liberty Media - President & CEO*

I wanted to make I guess two points before we open it for questions. One is, you know, you have heard a lot about the potential synergies. And we talked a lot about how video can drive both on the Capital side and on the Interactive side.

One point I would make is obviously some of these Web businesses are being priced and driven by the cost of search terms, which is a bigger and bigger percentage. And obviously, video promotion we think is much more valuable. And as those search terms get up, it is really raising the value of our video promotion. And there is an underlying kind of built-in benefit, I think, as that grows. And it is a halo over how much our promotion is worth.

And the second thing is, when you think about the community and the network effects that go on in a lot of these Web businesses, nobody has that better than QVC. The testimonials, all of those things are reinforcing on community. And as that goes on, the ways that we can bring community across more elements of our businesses and leverage that kind of experience is something that I think we will continue to look at and both very much in line with overall trying to operate Liberty Interactive as one company and trying to operate and leverage Web trends.

With that, I guess we're going to answer some questions, and definitely tap our friends from Liberty Interactive, who gave the great presentations.

QUESTIONS AND ANSWERS

Bob Peck - *Bear Stearns - Analyst*

Bob Peck with Bear, Stearns. Just a couple of quick questions. First of all, Dr. Malone, could you comment -- one of the comments made before was if you could have any company, well, MySpace would be a great company. Could you talk about maybe some of the other social networks out there that could be just as interesting, whether it be Feedster, Xanga, Facebook, etc.? Any thoughts there for Liberty?

John Malone - *Liberty Media - CEO*

Well, of course, those have been great assets. In fact, one of my summer interns was one of the cofounders of Facebook came by to say for a guy who was 22 years old, he was doing okay.

No, I think these vehicles which create their own content are obviously very interesting. It really does change dramatically the economics of communication and community. It is more Greg's space than mine to comment on whether or not Liberty would have opportunities in that space.

Obviously, we do indirectly through some of our vehicles, whether it is InterActiveCorp with Match.com, which is a community of nature, as well as CitySearch, which has huge traffic now. Or if you go over to Rupert, who -- really, the purchase of Match.com or of MySpace kind of focused News Corp. on the amount of total traffic that they get and focused them on ways to monetize that traffic and I think moved them up to my guess is, what, third, maybe, most-visited collective site.

So it is clearly a phenomenon on how to monetize this, and you know, online advertising really at this point is almost all online paid search and it's search-driven in terms of this revenue model and how clever people like Peter [Churn] can figure out how to create more of a traditional advertising model in vehicles like MySpace is going to be fascinating to watch.

So in the direct participation, I don't know – that is probably up there on Greg's radar screen. Indirect participation I think is something we are already enjoying and can benefit from.

Bob Peck - *Bear Stearns - Analyst*

And a quick follow-up -- does it ever make sense for Liberty to maybe try and regain the voting rights over at InterActiveCorp, or is that not something that makes sense on the agenda?

John Malone - *Liberty Media - CEO*

Well, I think the original transaction with Mr. Diller was pretty clear. And with the passage of time, things change, circumstances change. Sure, now that the business is built and doing quite well, it would be lovely to consolidate it. And that may at some point be doable as the result of some negotiation or transaction.

In the short run, I think those businesses have parallel trajectories. We put them in the Interactive Group because their financial model paralleled that of QVC and Provide and GSI. They are rapidly, reasonably rapidly growing, free cash flow-generating businesses. And so we think their economic trajectory, even though we can't consolidate, are quite similar. And therefore, these are to be viewed within the same parameters.

The relationship between Liberty and Mr. Diller has gone through many twists and turns over the years. At the current time, I guess the stock that we actually own directly represents about 54%, I think, of the votes in the company.

Greg Maffei - *Liberty Media - President & CEO*

I think it's 55 and 52 or 54 and 52, because IAC has done a little more buyback, but it --

John Malone - *Liberty Media - CEO*

You know, we were down when Vivendi -- when Seagram came in, we diluted down and they got converted to Vivendi. Then Vivendi got redeemed out. Our voting interest went back up. It has varied all over the place, and it is a dynamic relationship. And if it were to turn out that it was more valuable for us to own one or the other of those, we would have that discussion with Barry, or if consolidating made sense and was worth the price, we would go down that road. But for the moment, we are pretty happy to see those businesses growing in parallel with our Interactive business.

Bob Peck - *Bear Stearns - Analyst*

Last question and I will let somebody else go. Mike and Bill have done a very good job as far as building their businesses and getting new clients on board. Could you give us a little more color behind the synergies of maybe some of the suppliers that QVC works with that could maybe become partners or somehow have some sort of a relationship with GSI and Provide?

John Malone - *Liberty Media - CEO*

We ought to really ask Mike to comment on that because --

Bob Peck - *Bear Stearns - Analyst*

Mike and Mike?

John Malone *Liberty Media - CEO*

Mike and Mike. They are there every day.

Michael George - *QVC - President & CEO*

The question is synergies with the current -- could you clarify the question for me?

Bob Peck - *Bear Stearns - Analyst*

Any synergies there between some of your suppliers on QVC that maybe ultimately GSI could do their e-commerce stores that could ultimately work with Provide?

Michael George - *QVC - President & CEO*

Certainly Mike can add to it. I think absolutely there is an opportunity. There's already some overlap there. I'd probably better let Mike comments on that space.

Michael Rubin - *GSI Commerce - CEO*

We have always benefited by being part of the QVC family in that, certainly starting off six or seven years ago with $5 million in sales and still today at 1 billion being roughly 15 or 20% of the size of QVC, they have been incredibly helpful to us in many operational aspects, from helping us to achieve better freight rates, from helping us to achieve better phone rates, from helping to us achieve better - really just leveraging a lot of the size that QVC has. So actually it's something that since day one has really been a very helpful part of our corporate structure.

In addition to that, there has been a lot of experience where having, again, someone in the family that is six or seven times your size, it can always help to add strategic value and help you through different issues - where they have been there and done that is also critically important.

And as far as the last question, as it relates to vendors, there certainly is good dialogue in where the companies work together. And I think we often look at things where either those vendors that QVC has a relationship with, and if we are in a process of going through and trying to attract that vendor, QVC's positioning can definitely help us.

We actually have a significant media business today. We operate below the media -- TBS, HBO -- that is a good 5 or 10% of our business. QVC was very influential to helping those companies to come with us. Some of the sports leagues where QVC and GSI enjoy big business together -- NASCAR would be a great example of where, together, GSI and QVC, I think we'd probably be the biggest seller of NASCAR products in the world.

So I think there is, for two companies in the space that we run, a fair amount of collaboration and partnership. And I think together, we certainly are able to create more than we could individually.

John Orr - *Liberty Media VP, IR*

Next question?

Adam Schwartz - *First Manhattan - Analyst*

My question is for Dr. Malone. It's Adam Schwartz with First Manhattan. I was struck by listening to the description of Liberty Capital. It struck me as sort of a venture capital portfolio. And when I look at it, I see a lot more in terms of the flexibility in the structure and the flexibility of the balance sheet. I was wondering if you could talk a little bit about how you view it and if it is more than a venture capital portfolio.

John Malone - *Liberty Media - CEO*

Yes, it is kind of interesting, because Liberty Capital is sort of what was left after we took a bunch of other stuff out, is the right way to look at it. Very philosophically, the way to look at it was most of these assets were created around the market power that TCI as the dominant U.S. cable company had accumulated, and gave us the opportunity to build investment positions or outright ownership of a series of businesses, some of which were technologically based, some of which were content -- programming based, certainly QVC, HSN. All of these businesses, to a large degree, relied on the market power that TCI provided and basically the skill set in technology.

Once TCI got taken out of the middle with AT&T, we found ourselves with a somewhat disconnected set of assets with no common hub to the wheel, as it were. And so systematically, we started off by taking out the international cable operations, giving them a clear identity and spinning them to shareholders, combining it with and rationalizing that set of assets and ending up with LGI, which I think reported yesterday very strong results. So that was like one.

We took Discovery, which was a 50% position in a programming company, great enterprise -- but we couldn't figure out how to get valued on it. And we certainly could never contemplate our partners being willing to merge into Liberty, being such a diversified enterprise. They would have to give up control.

And we never -- after many efforts to buy them out and/or merge them in, we concluded that that was likely never going to happen because of the private nature of the two partners. And so we thought the best thing to do was to separate it, and we spun it off in a tax-free spin-off to our shareholders less than a year ago to give it its own identity and to increase the probability that the partners would in one way or another recapitalize the company and make it one cohesive business unit.

That left us, then, with the Liberty Media of today, or of three days ago, before the tracking stock. And then we were puzzled with -- where do you go from here? How do you get further focus? We recognized that we were trading in most people's assessment at a very substantial discount to net asset value.

We had two kinds of businesses. We had QVC, and it is an investment in some operating businesses where we sort of have control, except we've assigned that control to a management team -- Expedia and IAC. And then we have this other set of businesses, somewhat unrelated to those businesses, but to a very large degree portfolio-based. So we have a bunch of relatively small venture capital things, capital-like things, some of which are quite historic. And we rate the relationships we've had for a long while.

And then we have these big portfolios of public securities. And then we have partial interest in things, like Court TV is a good example, where our chance to ever consolidate it is slim to none because of the nature of the relationship with the other partner.

And how to then go forward -- well, we thought we could spin off what we now call the Interactive set of businesses. However, to do so, A., we didn't need the covenant tax requirements for the tax-free spin-off. We didn't have a five-year traded business. Furthermore, we had continuing tax asset use in the parent in the Capital side that would be useful in a tax consolidation with the Interactive side.

So we hope by creating a tracking side to get focused clear allocation of valuation as between the two sets of assets that would then allow us to use what dry powder we have to shrink equity appropriately if that turns out to be something that -- the way that that discounts apply to the two businesses.

I think you heard Greg earlier, and I certainly second -- the Interactive business is in a position to be a very systematic shrinker of its equity. And I think with fairly high probability, you can expect that to be the course of action for the foreseeable future. The combination of the growth in free cash flow and cash flow and free cash flow that those businesses generate, the relatively modest leverage which we are initiating them with, and just their raw current free cash flow, puts us in a position to expect a sustainable equity shrink or return of value to shareholders kind of a structure.

And I think, as Greg said, I don't know that anybody has modeled it yet, if anybody on the Street has modeled it yet, but I have played with some numbers, and the returns are quite attractive if you pursue that model. The equity will either price itself appropriately, it represents sort of a fair return, or that kind of a prospect actually generates a higher return -- I mean, it is sort of self-fulfilling.

The Capital side is quite a bit more problematic because we do have a fair amount of instant liquidity on that side of the business. If the equity was dramatically cheap, one could have a one-time event and address that in the short run. It does not have the characteristics for a sustainable program of equity shrink. One could address the discount. Part of the whole process of this tracker was to see where the Street put that discount, and then for the management and the Board to make a decision in terms of how then to address that discount.

On the back of the envelope -- and don't hold me to these numbers -- but roughly a heavy-handed sell the assets and pay off the debt and distribute the money to the shareholders is about somewhere around $80 a share -- pretty much where the stock is currently trading. Greg's nirvana, a perfect monetization of all assets with no tax leakage --

Greg Maffei - *Liberty Media - President & CEO*

I think that is your nirvana, John.

John Malone - *Liberty Media - CEO*

I have a third proposal, which is not Greg's nirvana. But the most efficient monetization and delivery of value to shareholders with no tax leakage on a static basis, present value basis, gives you a number somewhere around $120 a share for our current traffic.

That difference, that $40 difference or so, is really a bet on how efficient that transformation can be executed. And that is one of the things we will definitely be focusing on here in the next week or two as the stock stabilizes -- is there enough value generation in an aggressive shrink to justify it? Or should we wait and only address that issue as we actually execute a tax-efficient monetization strategy on a deal-by-deal basis? I think that is really the issue.

We do have the liquidity currently to put a fairly substantial dent in it without taking unnecessary risk. So how that liquidity would be used, excess liquidity -- and that is without incurring any meaningful tax leakage or without taking on debt that we would have a difficulty in servicing.

So I think that is kind of where we sit and how we see it. I would much prefer to see Capital build up its assets. We've contemplated a number of different directions to go in, assuming we do successfully monetize a lot of these equity positions. And that is really one of the principal reasons why Greg has joined us, is to pursue the opportunities, to actually build something substantial.

My preferences are always leveraged cash flow growth. If the business is -- you could look at QVC as my nirvana, leverage built without big CapEx. That is as good as it gets in this world, as far as I can tell.

Greg Maffei - *Liberty Media - President & CEO*

We're just missing that shield.

John Malone - *Liberty Media - CEO*

Well, yes, but the free cash flow -- I mean, the difference, if you look at LGI, which is my other nirvana, the international company, roughly 20% organic growth, but big CapEx -- no free cash flow, right? So if you can sustain the growth, you can releverage that incremental cash flow, stay at a leverage model and use that to return value to shareholders, that is good.

Better is you have that plus generating a lot of free cash flow, which doesn't have to go into CapEx to sustain growth. And then perhaps the better model than that is to have those two kinds of businesses in the same tax group so that the one that doesn't have the big CapEx and the big tax shield gets shielded by the sister vehicle that has a tax shield.

And for at least a while, that is what you are going to see between Liberty Capital -- I mean, naked QVC would be a very large taxpayer today. We could ask Bill, but that would be 400 million? Numbers like that. So isn't it nice that instead of sending the money to Washington, they are going to send the money to Liberty Capital?

Greg Maffei - *Liberty Media - President & CEO*

And we think it --

John Malone - *Liberty Media - CEO*

And we are eternally grateful.

Greg Maffei - *Liberty Media - President & CEO*

So one nirvana could be if you could find another way to shield, buy another business which had shield on the Capital side, that would have Interactive continue to do all the things we contemplated, and then add shields on the Capital side. Well, you then might think -- a lot of people said, oh, when are you going to spin all these off, make them separate? If you could find that nirvana, it might argue that even thinking about spin is the wrong way to go.

John Malone - *Liberty Media - CEO*

Well, think about -- I understand the tracking stock has been somewhat controversial. And they work for some people and not for others. And there have been some abuses. But if I can take you to one experience that we had, where we created the tracking stock, which I take some carriage in, was the creation of PCS for Sprint. You may well remember that their whole movement into wireless was in a joint venture with us and two other cable companies.

We were basically 50/50 with Sprint Corp. Sprint Corp. was an old-line telcom with a full current tax burden, whatever that amounts to -- 37% probably of their operating income going to the government. And we built Sprint PCS as a tracking stock fellow traveler with Sprint.

Obviously, the massive capital investment and tax costs in building their wireless business generated enormous tax losses. Those tax losses in consolidation with Sprint's old-line telecom represented a very large transfer of economics, not to the government, but between Sprint and Sprint PCS.

Our experience was we put in 1.5 billion by TCI, it was, and then it became Tech/Ventures, and then it became Liberty Media. We put in $1.5 billion of equity into the Sprint PCS for a 25% equity space. We burned through that $1.5 billion of equity -- i.e., we took tax deductions that wiped out the $1.5 billion. So if we were a 40% taxpayer, we paid 600 million in taxes.

As soon as we got to zero basis in our 25%, we converted that into a tracking stock of Sprint's under a tax treaty whereby Sprint would repatriate on a quarterly basis any tax savings or estimated tax savings back to PSC. This was an incremental source of cash flow for Sprint PCS, which, actually, the financial institutions would lend again because it was that predictable. That allowed us to leverage up and build Sprint PCS without putting any more equity in. We ended up with zero basis and something like $5.5 billion of equity for our stake in Sprint PSC.

That is as efficient a value creation model as I know of. That's sort of nirvana. So I think the challenge for Greg is basically to find something better than getting rid of that $40 discount and giving the money back to the shareholders. If he can find a model better than that, then you know he's going to have the Board's support. And I think that is really the challenge. If he even gets close to that 40 --

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Greg Maffei - *Liberty Media - President & CEO*

Thank you.

John Malone - *Liberty Media - CEO*

And that is really going to be the bet that the shareholders and the Board have to make, is early time, the proper pricing of the stock relative to the ability to execute that as an efficient monetization, and then long term, can we build an economic model using the tools we already have and the asset base we have and the management skills we have, and build an economic model that can promise very high equity returns on the Capital side.

I am personally very convinced that on the Interactive side, we've got a huge winner. If you just take QVC from the beginning, look at the wealth that it has created, enough that we had to write, what, 7.7 billion to buy out Comcast's 57%? And we've taken - what was the number? 2.9 billion out of it just since we have owned. I mean, this thing is incredible in terms of wealth generation.

And part of this whole structure is to allow our shareholders to look directly at that machine and to understand the dynamics of that machine. And I'm really convinced that that one is a slam dunk. The real challenge is going to be over on the Capital side, where we have the dealmaking challenge of monetization and then we subsequently have the corporate development challenge of finding and building businesses that have the kind of characteristics that we're talking about.

And one of the benefits of being in this venture capital game that we're in is it gives you a toehold in a lot of businesses that are relatively small initially, but could potentially become very large.

Unidentified Audience Member

Presumably if you are going to try those deals in new pools of investors, retail company investors and Internet investors, they are going to be more apt to look at things just on a pure EPS basis. You might have to address some of the rigidities, for example, capturing the fact that the IRS still views you as one happy company, and trying to capture the attributes of being able to use the losses of capital to subsidize QVC.

Is that something that you are kind of figuring out how to address as you communicate to these new investor audiences, if you think you can kind of come out consistent [multiple speakers]

Greg Maffei - *Liberty Media President & CEO*

Well, actually, it is almost the other way, really. The losses would be at the Capital side and Interactive will pay money over that way. So it will be Interactive sending money to Capital, not Interactive sending money to the government. So that is an element.

But your first point, if I understood the question correctly, I think that is one of our challenges, is to go out and, as I said, educate investors on the potential for systematic shrink or the potential for accretive acquisitions on top of the inherent growth potential in Mike's business and Bill's business. So that is our education process.

If I could just add one thing to what John said on the other side, we started out this tracker process and we did benefit from some [run in] news, but we have also benefited I think from the marketplace assuming that we're taking a more activist stance on potential unwinds or other transactions which might tighten the discount from pretax, then after-tax, then market, and at least moving the market up towards the after-tax, and potentially moving the after-tax up towards the market. In a way, the easy money just happens.

John Malone - *Liberty Media - CEO*

I would say one thing in retrospect, because we have been having these meetings for quite a few years. Bob and I stayed with investment-grade longer than we should have. I think we sat on and didn't undertake some opportunities that we should've undertaken two or three years ago on the theory that we should sustain that investment grade debt rating. I think it is very clear that that was a mistake because of the opportunities that presented themselves if you were willing to take leverage up.

That is just sort of an observation of why we went through about three years when we really didn't kick the can down the street maybe as hard as we should have. And we essentially were competing for deals with private equity that had no such restraint. And therefore, deal after deal after deal that we looked at, the pricing was beyond reasonable returns simply because we were unwilling to put on the incremental leverage. And that is the mistake that I promise not to make again.

Greg Maffei - *Liberty Media - President & CEO*

Just a thought on Capital as I mentioned, the opportunity to convert some of those after-tax values and move them up towards the pretax, the market is already pricing in, to my judgment, but that is happening. And it will do that. And we acknowledge we are in dialogue, but it is not yet done. There's nothing to announce today. So the market has tightened in the belief that we will get those done. I would like to think we will, too, but it is priced out a lot of the potential for them not getting done.

Unidentified Audience Member

[inaudible -- microphone inaccessible] it is probably too complicated for us sell-side analysts to try to do. So when you look at the Liberty Capital valuation internally, would you really adjust for the value of the cash that is remitted from Interactive, as you talked about, instead of going to Washington?
